

Agriculture: Previewing the 2002 Farm Bill

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Federal farm support, food assistance, agricultural trade, marketing, and rural development policies are governed by a variety of separate laws. However, many of these laws periodically are evaluated, revised, and renewed through an omnibus, multi-year farm bill. The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (P.L. 104-127) was the most recent omnibus farm bill, and many of its provisions expire in 2002, so reauthorization will be an issue for the 107th Congress.

The heart of every omnibus farm bill is farm income and commodity price support policy – namely the methods and levels of support that the federal government provides to agricultural producers. However, farm bills typically include titles on agricultural trade and foreign food aid, conservation and environment, domestic food assistance (primarily food stamps), agricultural credit, rural development, agricultural research and education, and marketing-related programs. Often, such “miscellaneous” provisions as global warming, food safety, and animal health and welfare are added. This omnibus nature of the farm bill creates a broad coalition of support among conflicting interests for policies that, individually, might not survive the legislative process.

The scope and direction of a new farm bill will be determined by a number of contributing factors, including financial conditions in the agricultural economy, the federal budget, and international trade developments, among others.

Among the thorniest issues will be future farm income and commodity price support. The Agricultural Market Transition Act (AMTA), Title I of the 1996 farm bill, was designed to provide gradually declining fixed payments to producers of major crops (grains and cotton), while giving them more flexibility to plant in response to market signals, among other provisions. However, unanticipated, persistently low commodity prices and 3 years of multi-billion dollar ad hoc emergency farm aid packages to supplement the assistance programmed through the 1996 law have raised questions about its effectiveness. Many have expressed preference for a more reliable method of supporting farm income than ad hoc laws, and are pushing for a variety of changes to accomplish that in a new bill. Questions of equity (e.g. who should get aid and how much), program cost, impacts on trade competitiveness and the environment are among the considerations in this debate.

The economic prosperity of the U.S. farm sector is heavily dependent upon exports, so the provisions of a new bill reauthorizing farm export and foreign food aid programs also will be of keen interest. These provisions also might become a venue for providing guidance regarding farm sector goals and objectives to U.S. officials negotiating a new multilateral round of agricultural trade reforms, as well as several new bilateral and regional agreements. Moreover, the agricultural credit, research, conservation, domestic nutrition assistance, and rural development titles will bring an array of interests into the debate, and their issues and concerns could prove no less contentious.

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Introduction

What Is “The Farm Bill”?

The 107th Congress will consider major farm and food legislation in an omnibus multi-year authorizing bill, commonly called the “farm bill.”

Federal farm support, food assistance, agricultural trade, marketing, and rural development policies are governed by a variety of separate laws. However, many of these laws periodically are evaluated, revised, and renewed through an omnibus, multi-year farm bill. Of course, these policies can, and sometimes are, modified or overhauled as free-standing authorizing legislation, or as part of other laws. However, periodic “farm bills” have provided Congress, the Administration, and interest groups with an opportunity to reexamine agricultural and food issues more carefully, and address them more comprehensively.

The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (P.L. 104-127) was the most recent omnibus farm bill, and many of its provisions expire in 2002. Without new legislation, notably in the area of farm income and commodity price support programs, permanent statutes would take effect. Most of these statutes were enacted decades ago and are no longer compatible with current national economic objectives, global trading rules, and federal budgetary or regulatory policies. (In fact, these largely outdated permanent laws have been kept on the books in part to compel an increasingly urban and suburban Congress to pay attention to national agricultural policy.)

The heart of every omnibus farm bill is farm income and commodity price support policy – namely the methods and levels of support that the federal government provides to agricultural producers. However, farm bills typically include titles on agricultural trade and foreign food aid, conservation and environment, domestic food assistance (primarily food stamps), agricultural credit, rural development, agricultural research and education, and marketing-related programs. Often, such “miscellaneous” provisions as global warming, food safety, and animal health and welfare are added.

This omnibus nature of the farm bill creates a broad coalition of support among conflicting interests for policies that, individually, might not survive the legislative process. Among the groups lobbying Congress will be farm and commodity organizations; input suppliers; commodity handlers, processors, retailers, and exporters; foreign customers and competitors; universities and scientific organizations; domestic consumers and food assistance advocates; environmentalists, and rural communities. So, for example, farm state lawmakers look to urban

legislators' support for commodity price supports in exchange for their votes on domestic food aid – and vice versa.

The 1996 farm bill had 9 titles and some 300 pages – much shorter than the 1990 farm bill, which consisted of 25 titles and over 700 pages.¹ Farm bills and the programs they encompass are complex, tightly intertwined, and intensely interactive. Changes to one program often have unintended consequences for others. For example, a legislative change that raises corn prices must be examined for how it might change the planting decisions of those who grow other crops such as soybeans, and, in turn, the cost of the support program for soybeans. Likewise, a change in the corn program can have major implications for producers who feed corn to dairy cows, beef cattle, and other animals; for sugar producers and processors who can use corn syrup in place of sugar for many products; for consumers, including those on limited food budgets; and for exporters and foreign competitors. The level and type of support provided also can affect farm equipment companies, agricultural investors and rural financial institutions, fertilizer and pesticide suppliers, and farm-dependent rural communities.

Congressional Action

The farm bill likely will not be the only legislation in the 107th Congress affecting the farm sector. Lawmakers also are, or will be, considering welfare legislation, tax reform, trade legislation, government-wide budget resolutions, and various appropriations bills, all of them closely followed by farm interests.

In reality, federal farm policy is an ongoing issue for lawmakers. The 1996 law was intended to guide agricultural support through 2002. But unanticipated economic problems forced Congress to begin the next “farm bill debate” in 1998, when it considered and passed the first of a series of *ad hoc* measures that have pumped many billions of dollars in supplemental aid into the farm sector. (See “Farm Income and Commodity Price Support,” on page 8.)

In 2000, the House Agriculture Committee held numerous hearings on the 2002 farm bill, most of them in various parts of the country. This year, in late January, both the House and Senate Agriculture Committees formally resumed work by holding separate hearings to receive the recommendations of the Commission on 21st Century Production Agriculture, a blue-ribbon panel of experts established by the 1996 farm bill to advise Congress on future policy changes.² Both committees are holding additional hearings in early 2001. For example, the House committee has focused heavily on proposed changes to commodity price and income support programs, already taking testimony from approximately 20 separate general agriculture and commodity organizations.

The House chairman has indicated a desire to pass at least the commodity support titles of a farm bill this year. Efforts to do so were bolstered when the House,

¹ See Appendix B for a table of contents of the 1996 farm law.

² Commission on 21st Century Production Agriculture. *Directions for Future Farm Policy: The Role of Government in Support of Production Agriculture*. January 2001.

on March 28, 2001, passed its budget resolution, which would allow for more future spending to be devoted to agriculture if the House Agriculture Committee reports legislation authorizing a new commodity and farm income support title by July 11, 2001 (see “The Federal Budget,” on page 4). However, several other Members of Congress, including leaders of the Senate Agriculture Committee, have indicated that omnibus legislation, including the commodity section, may not pass Congress until 2002.

Related Policy Considerations

Economic Situation

For the last 3 years, lower demand for U.S. agricultural exports – due to the global economic slowdown, the continuing high value of the U.S. dollar, and abundant world supplies – have contributed to sharply lower prices for major farm commodities. A slowly recovering world economy is expected to stimulate a rise in the value of farm exports, to \$53 billion in FY2001 – above the recent low of \$49 billion in FY1999 but still short of the record high of nearly \$60 billion in FY1996, according to the U.S. Department of Agriculture (USDA). Farm export volumes for many items are expected by USDA to continue to experience growth in the coming years, but prices (and therefore overall value of exports) will recover more slowly due to large production and stocks.

The trade outlook is important to farmers because exports account for 20% to 25% of the value of their production, and one-third of harvested acreage is exported. Farm income also is affected by other factors, not the least of them government subsidies. USDA forecast data show that 2000 net cash farm income, at \$56.4 billion, has remained close to the annual average of the 1990s, due largely to record high direct payments to farmers. This has helped to undergird the value of agricultural land and other assets, keep farm debt at favorably low levels, and protect farm operator incomes. Production expenses, until recently relatively low, have been on the rise due to higher fertilizer, fuel, interest rate, and other input costs. USDA predicts that, absent another round of “emergency” payments for farmers, (i.e., over and above what they are programmed to receive under the 1996 farm law), U.S. farm net cash income could drop below \$51 billion in 2001.

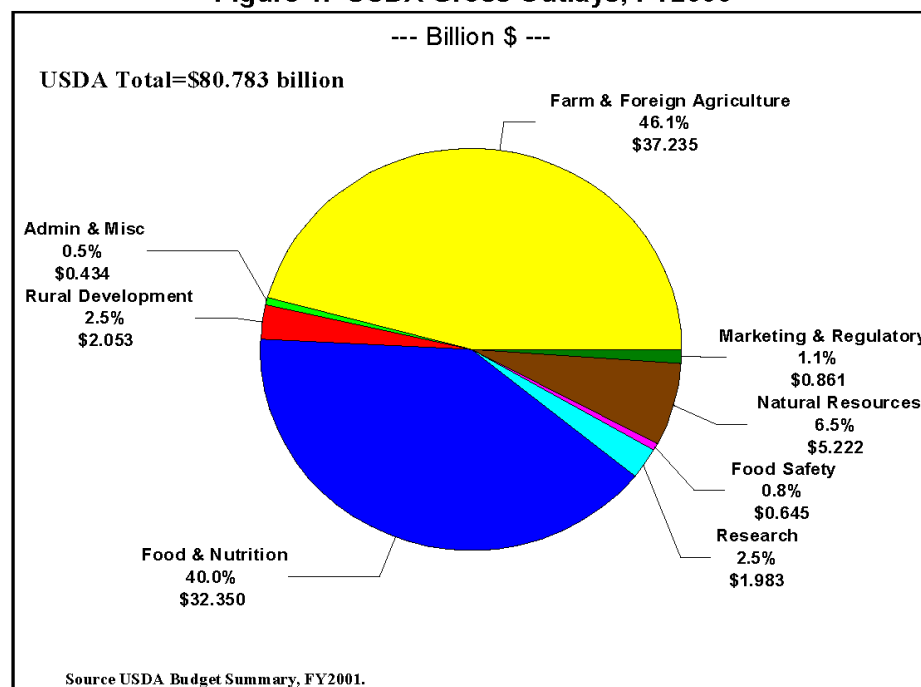
Changes in farm income also have impacts on rural communities and businesses that depend on the agricultural sector. Meanwhile, if the U.S. economy in general continues to cool, unemployment could rise and non-farm household incomes decline. That would bode higher costs for the food stamp program, where spending is directly affected by employment and income changes. So, the food stamp as well as the rural development titles of a new farm bill could become even more prominent issues in the next year or two.

The Federal Budget

Like all areas of the federal budget, agriculture and other programs in the farm bill face spending constraints imposed by Congress. These constraints begin to take shape with the start of the annual congressional budget process, when the House and Senate Budget Committees recommend maximum spending levels for broad “functional” categories. Once these limits are approved by Congress via the annual budget resolution, program spending cannot be increased that would breach these limits, unless either: (1) they are offset by increased revenue or cuts in other programs, or; (2) Congress and the President declare the extra spending to be “emergency.”³

Farm Bill Budget Categories. Most of the major programs that assist production agriculture, including commodity price and income supports, crop insurance, farm credit, marketing, and agricultural research, fall within so-called function 350, the agriculture function of the federal budget. Other functional areas of spending administered by USDA include: food stamps (under function 600, income security); conservation programs (under function 300, the natural resources category); foreign food aid (under function 150, the international affairs category); and so forth. So, although most of these programs are addressed by the Agriculture Committees in an omnibus farm bill, they are scattered throughout the federal budget

Figure 1. USDA Gross Outlays, FY2000



³ The budget resolution is a congressional blueprint for all federal spending that does not require a presidential signature, however.

for scorekeeping purposes (see figure 1).⁴ In fact, spending for USDA is not synonymous with spending for farmers, nor with the farm or appropriations bills.

Adding further complexity, some programs within each functional category are considered “mandatory” spending, while others are “discretionary.” Examples of mandatory spending are the major farm commodity price support programs and the food stamp program. Funding needs for mandatory programs are determined indirectly in the House and Senate Agriculture Committees when they write, directly into the authorizing laws, the eligibility standards and benefit levels for these programs (as long as this funding does not exceed levels permitted in the separate congressional budget resolution). The appropriations committees then generally are expected to provide the necessary year-to-year funding in the annual USDA appropriation.

Examples of discretionary spending are agricultural research and extension, and farm marketing services. While discretionary programs also are designed and authorized in the House and Senate Agriculture Committees, their annual funding levels are not set until the House and Senate Appropriations Committees decide on them as part of the annual USDA appropriations bill. (Of course, both mandatory and discretionary program authorizations and spending still ultimately must be approved by the full House and Senate after they are reported by the relevant committees.)

Before either the Agriculture Committees or Appropriations Committees make these decisions by drafting the appropriate legislation – whether it is a new farm bill, an annual USDA appropriation, or some other measure – the panels must know how much “room” they have been allocated under the congressional budget resolution.

The “Baseline”. Thus, the opening stages of debate over a new farm and food policy usually occur in the Budget Committees. Both the Administration and the Congressional Budget Office (CBO) independently estimate what the level of USDA spending will be in coming years based on “current policy,” generally meaning the continuation of existing law, and on additional assumptions about likely economic and market conditions. The debate focuses on whether these estimates – the “baseline” – are appropriate or whether more (and, possibly, less) spending should be “built into” the baseline.

Usually, Congress uses the CBO baseline. For the major farm income and price support programs, CBO in December 2000 estimated that annual spending will be about \$10.2 billion in FY2002 and \$9.2 billion in FY2003.⁵ The CBO annual baseline generally continues to decline, from just under \$9.2 billion in FY2004, to

⁴ The food stamp program accounted for about \$18.9 billion of the \$33 billion food and nutrition category. Farm and foreign agriculture outlays likely exceeded food assistance program outlays for FY2000, due to the \$30.5 billion cost of Commodity Credit Corporation (CCC) farm spending.

⁵ These figures refer to farm spending by the CCC, the USDA entity created specifically to finance operations of the Department’s farm price, income support, and related programs.

about \$5.3 billion in FY2008, as well as in FY2009, which conceivably might be the final years of a new omnibus farm bill.

However, CCC farm spending (including emergency aid) was about \$30.5 billion in FY2000 and is projected at \$17.3 billion for FY2001 (unless, as many anticipate, Congress again provides additional emergency assistance this year). Earlier, each congressional authorizing committee submitted to the budget committees its recommendations for spending on programs under its jurisdiction. Although the agriculture committees did not request specific dollar amounts for additional farm assistance, they did ask the budget committees to provide them with the flexibility they might need to provide ad hoc assistance this year, as well as to make possible changes to authorized farm commodity support programs once they expire in 2002.

The House Budget Committee completed markup of the FY2002 budget resolution (H.Con.Res. 83) on March 21, 2001, which the full House approved by a 222-205 vote on March 28. Although the House-passed resolution does not specifically increase allocations for farm commodity support spending, it does support the Administration proposal for the use of a reserve fund to finance future new farm spending needs. For the near term, Section 8 of H.Con.Res. 83, as passed by the House, allows the chairman of the House Budget Committee to increase allocations for farm spending in FY2001, if legislation is considered authorizing financial assistance to crop growers. For longer term farm spending needs, Section 6 allows the Budget Committee chairman to increase agricultural spending in FY2002 by July 25, 2001, if the House Agriculture Committee reports legislation authorizing a new farm bill commodity title by July 11, 2001.

The full Senate completed its version of H.Con.Res. 83 on April 6, where Senators earlier approved a floor amendment to add, to the baseline, about \$63.5 billion more for mandatory agriculture spending over the next 10 years. More of the funds would be available in the earlier, than later, years of that period. It is expected that a House-Senate conference, after the spring recess, will resolve differences in the two measures. (A coalition of major farm and commodity organizations have been urging Congress to provide at least \$12 billion more annually.) The final level obtained will be a key determinant in the type of programs lawmakers design for a new farm bill.

International Trade

U.S. international trade obligations, most notably under the multilateral Uruguay Round Agreement on Agriculture (URAA), pose another constraint on farm program design and spending. Generally, that agreement places countries' domestic farm support programs into one of several broad categories, based on their relative likelihood to distort trade. Major agricultural trading countries are required to "discipline" (limit) total spending (i.e., their aggregate measure of support, or AMS) for their most trade-distorting (so-called "amber box") policies. Countries report to the World Trade Organization (WTO) on their domestic farm spending for each year.

The United States, like virtually all other countries, has been reporting that its AMS has been below its allowable annual levels (the last year it reported was for

1997). From 2000 on, the United States cannot exceed \$19.1 billion in AMS spending. U.S. amber box programs that generally might be counted toward AMS include dairy, peanut, and sugar price supports, crop marketing loans, loan deficiency payments, and other direct payments linked to per-unit levels of production; storage payments; and crop insurance and loan interest subsidies, among others.⁶ The least trade-distorting programs, so-called “green box,” are exempt from AMS limits. Green box programs include income supports not coupled to current production or prices, such as the payments going to producers who signed 7-year production flexibility contracts under the Agricultural Market Transition Act (AMTA) in the 1996 farm bill; conservation and environmental activities, such as the Conservation Reserve Program (CRP); farm disaster relief payments; and domestic food aid like food stamps.

The URAA does provide latitude to U.S. policymakers in developing domestic support measures that can both provide significant aid to producers but at the same time comply with WTO obligations. Some analysts argue, for example, that the United States will be able to claim that the emergency “market loss” payments Congress has provided to AMTA contract holders for 3 consecutive years (1998, 1999, and 2000) are exempt from AMS commitments because either (1) they are not tied to current production and prices, or (2) they are not commodity-specific, and therefore the subsidies could be measured against total U.S. production value for all commodities – keeping the level below the 5% *de minimis* exclusion.⁷ On the other hand, some member nations of the WTO could argue that the payments were made specifically in response to immediate price and supply conditions and were so large as to affect world trading patterns, thereby undermining the objectives of the agreement. The question could become a point of contention in the WTO negotiations to further reform agricultural trade, which are now under way.

As Congress begins to consider a new farm bill, other countries will be evaluating whether, in their view, future programs comply with the URAA. Moreover, the United States is pressing the EU for further cutbacks in its own domestic supports, and continued additions to the U.S. programs by Congress might undermine that U.S. negotiating position, some have argued.

Meanwhile, Congress will likely be seeking support methods that it can justify as URAA-compliant. Thus, farm policy proposals tied to conservation, rural development, and/or resource retirement, or those providing subsidies to producers irrespective of what they plant or of current prices, might be viewed more favorably than others. Congress and the Administration also may seek to influence future

⁶ Countries, including the United States, do not have to count amber box subsidies toward their total AMS if the total support provided by all of them is less than 5% of the value of production – the so-called *de minimis* exclusion. If the subsidies apply to a specific commodity (e.g., wheat, sugar, milk, etc.), then the 5% rule applies to the production value of that commodity only. If the subsidies are non-commodity specific, then the 5% rule applies to the value of the country’s total agricultural production.

⁷ See above footnote. However, as of early April 2001, the United States had not yet submitted its AMS notification to the WTO for any of these 3 years, so how the payments will be counted was still not known.

multilateral roles in ways that are consistent with U.S. domestic support policy aims and measures. (See CRS Report RL30612, *Farm Support Programs and World Trade Commitments*, and CRS Report RS20840, *Farm Program Spending: What's Permitted Under the Uruguay Round Agreements*.)

Farm Income and Commodity Price Support

The 1996 farm law significantly revised federal farm support policy. Title I, the Agricultural Market Transition Act (AMTA), eliminated variable deficiency payments (which were the difference between legislated target prices and current, usually lower, market prices) for wheat, feed grains, cotton, and rice. Producers of these commodities instead are receiving “production flexibility contract” (PFC) payments, which are lump sum benefits that decline each year. These are provided irrespective of current market prices or planting choices. Supply controls in the form of specific annual acreage bases and cropland set-asides were ended by the 1996 law because, it was argued, they distorted production decisions and ceded export markets to foreign competitors – who increased output whenever U.S. farmers had to cut acreage in order to receive subsidies.

With federal payments “decoupled” from production under the 1996 law, farmers were encouraged to plant for “market returns” rather than “federal program benefits,” and were given broad planting flexibility. The 1996 farm law was enacted at a time when farm prices were at high levels and foreign markets were expanding greatly. The major crop producers (or owners of the land where these crops had USDA-assigned bases prior to 1996) were set to receive a total of about \$36 billion in contract payments over the 7-year life of the law.

In addition, the 1996 law maintained some price protection by providing countercyclical marketing loan assistance for AMTA commodities and for soybeans and minor oilseeds. Under this program, farmers who take out USDA crop loans are permitted to repay them upon maturity at market prices if these prices are less than the original per-unit (bushel, pound) loan rate; the difference is in effect a revenue subsidy. Moreover, those eligible for but not taking the crop loan also receive an equivalent subsidy called a loan deficiency payment (LDP). CCC net outlays for loan-related activities, including LDPs, were \$1.6 billion in FY1998, \$4.8 billion in FY1999, \$9.8 billion in FY2000, and are projected at \$6.6 billion in FY2001, according to USDA.

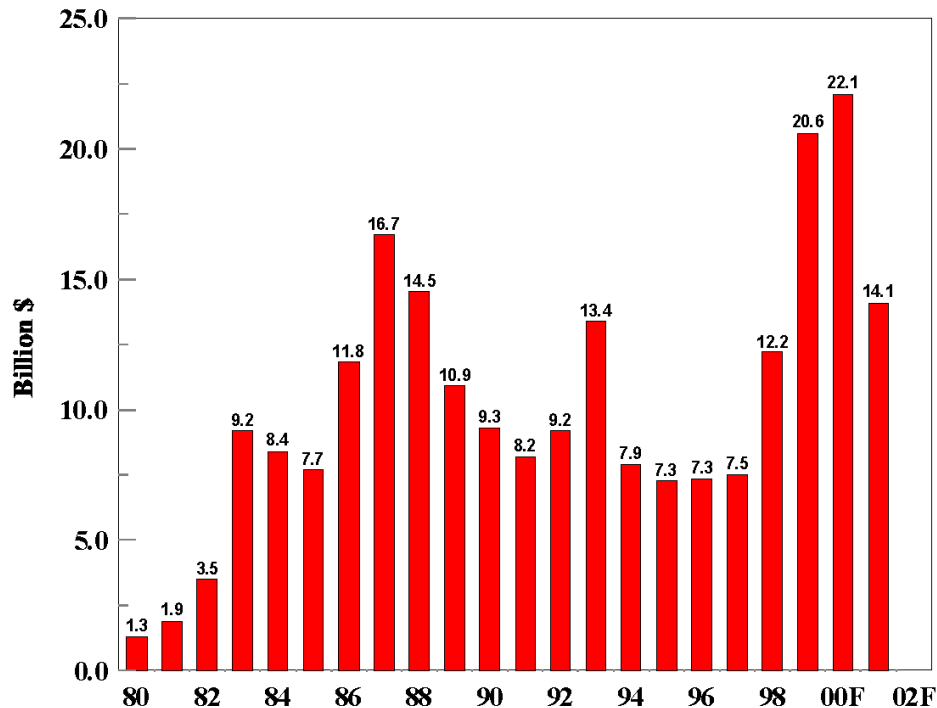
The 1996 law also had paved the way for elimination of the longstanding dairy price support program, whereby the government steps in to buy surplus cheese, butter, and nonfat dry milk whenever farm milk prices decline below a statutorily determined level. Sugar price support, which operates primarily through CCC loans, was continued, although without domestic marketing controls. The peanut program, whereby domestic prices are protected through production quotas and higher price support for quota peanuts, also was continued.

Developments Since 1996

At the time of passage, objections to the 1996 law were heard from some who worried about inadequate “counter-cyclical” income support in the law if prices fell. In fact, this began to happen late in 1997. This followed several years of unusually good growing conditions in many parts of the world, a financial crisis in key growth markets for U.S. farm goods (Asia and Latin America), and a rise in the value of the U.S. dollar against other currencies. Falling commodity prices substantially reduced farm income, and the Congress stepped in with several emergency measures to increase government payments to farmers. After 3 years of such emergency measures, this aid (along with the rising cost of the loan programs) increased farm subsidies well above the levels anticipated under the 1996 policy.

From 1998 to 2000, these emergency measures provided a total of approximately \$25 billion in farm and related assistance, over and above amounts already authorized by the 1996 law. Although a substantial portion was for disaster assistance (e.g., drought, flooding, etc.), about \$17 billion of it was in response to falling commodity prices. Nearly \$14 billion of the \$17 billion went to those with AMTA production flexibility contracts. Much of the rest of the economic (non-disaster) aid was for special subsidies for producers of soybeans and other oilseeds, peanuts, tobacco, milk, honey, wool, and mohair. In effect, Congress revived programs for the latter three commodities which earlier it had eliminated. In addition, the dairy price support program has been extended twice, and (though it is now scheduled to expire at the end of calendar 2001) will likely be extended again.

Figure 2. Direct Government Payments to Farmers, 1980-2001(f)



In 2000, direct government payments to farmers reached \$22 billion – a figure representing over one-half of *net farm income* and some 40% of *net cash income* for the calendar year (figure 2, from USDA data). Of this total, \$9.5 billion came from the “emergency” farm aid; the rest was primarily from higher marketing loan subsidies already programmed under the 1996 law. In recent years, government farm subsidies actually have reached record-high levels, but they have helped the overall farm economy remain in relatively strong financial condition, at least through early 2001, according to USDA.

The Case for Federal Farm Support

Apparent inequities in the distribution of program benefits, the economic well-being of today’s farm households, and the comparatively small role of farming in the employment and income base of many rural communities have challenged the original justifications for the price support programs. When the programs were created in the 1930s, farms were, by today’s standards, smaller and poorer, played a larger role in their local economies, and shared relatively equally in the production of the nation’s supplies of food and fiber.

Today, by contrast, average farm operator household income exceeds the national average for all U.S. households, rural economies are, except in a few areas, far more diverse, and farming is much more segmented and specialized. Farm payments (including the emergency aid of 1998-2000) by design still are effectively based on output rather than being targeted to farmers who are the most economically distressed. For these and other reasons, critics question why non-farm

Who Farms Today?

The 1997 Census of Agriculture counted approximately 1.9 million farms. These can be divided into at least three distinct groups, most of which remain family-run operations. However, a more detailed breakdown of these Census statistics shows that the sector is much more diverse in production, income, and economic well-being than indicated below.

Large commercial operations: About 157,000 commercial farms, with annual agricultural sales of \$250,000 or more (about \$900,000 on average), account for 8% of all farms but 72% of all U.S. production value. Such farms depend primarily on agriculture for their income, the bulk of which comes from market sales, not government payments (although a sizeable portion of such payments do go to such farms).

Mid-sized farms: About 189,000 farms with annual sales between \$100,000 and \$250,000 (about \$160,000 on average) account for about 10% of all farms and 15% of U.S. production value. Operators of these farms obtain 57% of their household income from non-farm sources. Some are sound and others are severely stressed economically.

Small farms: These are the nearly 1.6 million remaining farms with average sales of less than \$100,000 annually (and \$16,000 on average). They receive virtually all of their household income from non-farm sources and are considered farms primarily because of their location, character, and the fact that Census defines a farm as any place that sold as little as \$1,000 in agricultural products. However, some of these smallest farms are operated by so-called limited-resource farmers who have little or no other income.

taxpayers should transfer an average of \$11.4 billion annually over the past 10 years in support to farmers, and primarily those farmers growing selected commodities.

Defenders of the current system argue that federal farm programs are intended to maintain the productive and competitive capacity of U.S. agriculture, not serve as welfare for individually needy farms. A healthy agricultural sector is vital to the national economy, where the net value of agricultural goods and services accounted for \$90 billion annually during the last 5 years.⁸ The overall food and fiber sector accounts for more than 15% of Gross Domestic Product, and 18% of U.S. civilian employment (however, the majority of those percentages are contributed by off-farm industries such as inputs, processing, marketing, etc.). Agriculture deserves special consideration because it is a highly volatile industry subject to highly price-inelastic demand, the vagaries of biologically-based production, variable weather patterns, and volatile world market forces, it has been argued. Government support helps to assure an abundant supply of safe, reasonably-priced food produced in an environmentally sound manner.⁹

Selected Issues and Options

Many policy makers and farm groups are pushing for policy changes that would provide a more reliable method for supporting farm income than *ad hoc* laws – and pushing for more assurance that the money will be available when needed in future years. Meanwhile, though, the complexities and political considerations inherent in a major reauthorization of farm policy make it likely that another supplemental *ad hoc* funding package will be considered this year.

Debate over both short-term relief and long-term policy changes involve such issues as: (1) competition for additional money with those pursuing other policy interests, such as tax relief, deficit reduction, or Social Security and Medicare reforms; (2) the extent to which policy changes might weaken the underlying market orientation goal of changes made by the 1996 farm law; (3) which commodity groups should benefit from policy changes and by how much, and (4) conformance with trade agreement caps on domestic support for agriculture and with the U.S. negotiating position that the European Union (EU) and other parties should reduce trade-distorting farm support.

Agricultural interest groups have offered a variety of options for modifying current farm policies. Except as noted, the options discussed below mainly apply to policies for wheat, feed grains, upland cotton, rice, and oilseeds.

PFC Payments. Most (although not all) organizations that have testified to date have called for continuation of lump sum production flexibility contract (PFC) payments. Some have recommended increased annual funding (which will total about \$4 billion in the final year of the current program), perhaps as a more “permanent” alternative to the annual *ad hoc* supplements that have been

⁸ Commission on 21st Century Production Agriculture.

⁹ These arguments are made in greater detail in the Commission’s report.

appropriated for PFC recipients since 1998. Some want increased PFC payments so that eligibility can be expanded to include soybean and other oilseeds acreage. One question is whether additional commodity groups should share in any expanded AMTA funding – such as the tobacco, peanut, milk, wool, mohair, apple, and cranberry producers who recently received direct payments under the emergency funding laws. Another issue is whether the basis for awarding PFC payments ought to be revised (e.g., by using more recent planting histories, allowing entry of farmers who did not produce contract crops when AMTA was adopted in 1996, etc.).

Counter-cyclical Assistance. There is growing interest in the concept of counter-cyclical assistance, where supplemental payments would be made when farm income declines below a predetermined level, and halted when income is above that level. The Commission on 21st Century Production Agriculture recommended such a “Supplemental Income Support” (SIS), which would pay producers when national aggregate program crop gross income (i.e., that for all wheat, feed grains, cotton, and rice) falls below some percentage of the income level for those crops in an earlier base period. Others have called for more targeted counter-cyclical aid. The American Farm Bureau Federation (AFBF), for example, has recommended that such payments be made when any state’s (as opposed to national) gross cash receipts for a particular commodity (wheat, oilseeds, cotton, rice, feed grains, or oilseeds) fall below a predetermined level. This level could be a recent 4-year average (i.e., 1996-1999) of receipts for the crop, AFBF has stated.

Counter-cyclical programs – versions had been proposed in 2000 by Representative Stenholm and by the Clinton Administration – effectively might provide compensation for lost revenue regardless of whether they were due to poor yields or low prices. Proponents assert that because payments would not be tied directly to current prices or production, they could be exempt from disciplines under the URAA. Others disagree, noting that revenues are, in fact, a product of price times production. Therefore, designing the details of any such program will pose challenges for policymakers as they consider both trade and budgetary impacts.

Marketing Loan Assistance. So far, there appears to be widespread support among agricultural interests for continuation of marketing loans and loan deficiency payments. However, past proposals to alter their operation are again on the table. Options include: revising or removing the cap on loan rates so that loan deficiency payments rise or fall with prices or income; extending loan terms; fixing loan rates at higher legislatively-specified levels; and/or removing the Secretary’s discretion to lower rates. The National Farmers Union (NFU), for example, has proposed that rates be set annually at not less than 80% of the “3-year moving average of the full economic cost of production per unit per planted acre as calculated by the Economic Research Service utilizing the most recently available data.”

Several groups have called for a “re-balancing” of current loan rates so that one crop is not favored over others. Some contend, for example, that the current \$5.26 per bushel rate for soybeans creates an incentive for more soybean plantings over other loan-supported crops (although the American Soybean Association asserts that other factors have led to higher soybean production). Farm groups who want “re-balancing” generally would increase loan rates for other crops rather than lower the soybean rate. Another question has been whether marketing loans should be

extended to other commodities that either are ineligible (e.g., fruits, vegetables) or that became temporary beneficiaries under the recent *ad hoc* packages (mohair and honey).

Supply Management. Proposals to restore various supply management tools are again being offered, although most major agricultural groups oppose them. (As noted, the 1996 farm law ended acreage set-asides as a condition of eligibility for other benefits.) One group, the NFU, strongly supports reinstatement of voluntary acreage set-asides for crops, with higher loan rates offered to participating producers. The NFU also supports what it terms “limited government owned, farm-stored commodity reserve programs,” which could include storage payments to producers estimated at about 30 cents per bushel annually. NFU also has recommended that another farmer-owned reserve (FOR) program be implemented, with similar storage payment rates.

Payment Limitations. The 1996 law limits PFC payments to \$40,000 per person annually, and marketing loan gains to an additional \$75,000 per year. However, because a person also can receive half-payments on up to two additional farms, the effective combined annual cap is actually \$230,000 per person. Single farm operations with multiple owner-operators might receive much more than the above amounts each year.

The special market loss payments provided under the emergency farm laws of recent years were not subject to any payment limitations. Moreover, two of these laws doubled, to \$150,000, the basic limit on marketing loan gains for 1999 and 2000 crops (to discourage farmers from forfeiting commodities used as loan collateral to USDA in lieu of repayment). Numerous agricultural and commodity groups oppose any payment limits – even higher ones – and are proposing they be abolished. Some critics counter that payment limitations should be maintained or tightened, because taxpayers should not be providing generous subsidies to large farm businesses.

Price-Supported Commodities. Other commodities traditionally have been supported by methods that attempt to maintain farm prices above what the market might otherwise dictate. Nonrecourse loans and marketing quotas apply to virtually all U.S. tobacco and to all peanuts grown for domestic edible use. Sugar utilizes nonrecourse loans and a system of tariff rate quotas to limit less expensive imports. Milk price support is provided through direct USDA purchases of surplus dairy products at minimum prices, milk marketing orders (which pool and set prices for most fluid grade milk), and, in New England, the Northeast Interstate Dairy Compact. At issue for Congress is whether to maintain these types of programs, which critics contend are the most market distorting because they encourage excess production. Periodic efforts in the past to significantly alter or phase out these programs generally have not succeeded. Supporters contend that they are necessary to keep farms, many of them relatively smaller, family-run operations, economically viable. Some consideration is being given to direct payments as an alternative to price support.

Green Payments. Some contend that farm income can be enhanced through so-called green payments, which provide financial incentives based not on the commodities they produce, but rather in exchange for practices that protect land,

water, air quality, and/or wildlife; or possibly offer scenic, recreational, or open space amenities. (See “Conservation and Environment,” hereafter.)

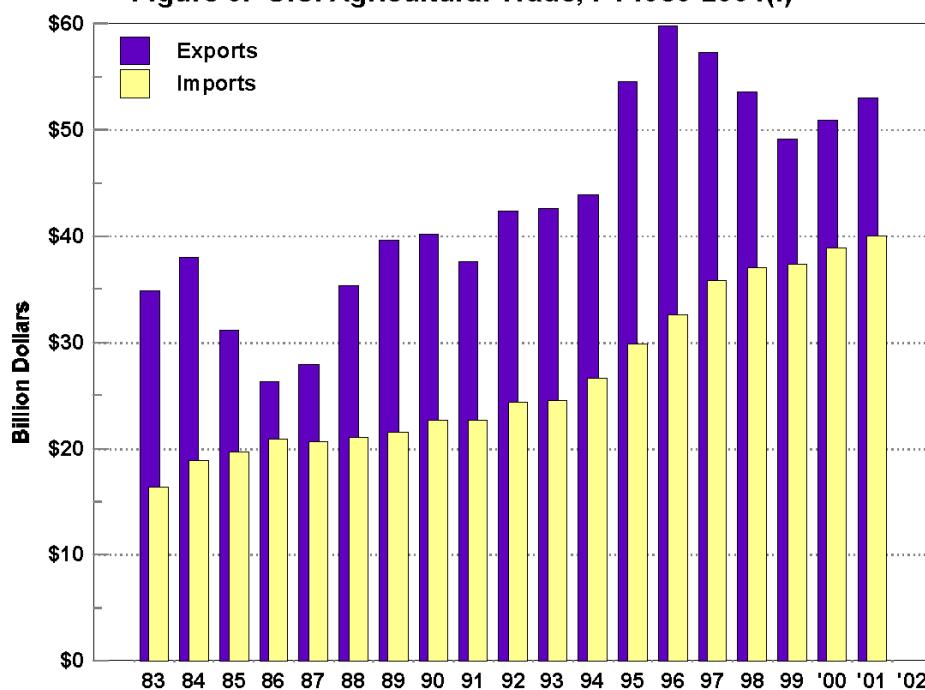
(For more information, see CRS Issue Brief IB10043, *Farm Economic Relief: Issues and Options for Congress*; CRS Report 98-744, *Agricultural Marketing Assistance Loans and Loan Deficiency Payments*; CRS Report RL30739, *Federal Crop Insurance and the Agricultural Risk Protection Act of 2000 (P.L.106-224)*; CRS Report RS20269, *Emergency Funding for Agriculture: A Brief History of Congressional Action, FY1989-FY2001*; CRS Issue Brief IB97011, *Dairy Policy Issues*, and CRS Report RS20848, *Farm Commodity Programs: A Short Primer*.)

Foreign Trade and Food Aid

The United States is the world’s largest exporter of agricultural products, with the European Union (EU) a close second. Production from one-third of harvested U.S. acreage is exported; agricultural exports account for 20% to 25% of the value of agricultural production. Thus, the economic prosperity of the U.S. farm sector is heavily dependent upon trade, and declining farm prices and incomes, which characterize the current U.S. farm economy, make agricultural trade an important congressional issue.

Although the Agriculture Committees are important arenas for addressing agricultural trade problems, and omnibus farm bills typically include a title on trade policy, export assistance, and foreign food aid programs, other venues are equally, or more, important. For example, negotiations have been under way since March 2000 in the WTO to strengthen the existing multilateral rules and disciplines for

Figure 3. U.S. Agricultural Trade, FY1983-2001(f)



agricultural trade, for example, by making further reforms in rules for market access, export subsidies, and domestic farm support. U.S. agricultural groups generally have been supportive of these negotiations because of the potential to open new markets for their products and reduce what they view as the much more trade-distorting domestic farm and export subsidy programs of some foreign competitors, particularly the EU.

Regional and bilateral trade negotiations also will affect conditions of competition for U.S. agricultural products. A bilateral agreement with Chile, and a broader Free Trade Area of the Americas (FTAA), are both high on the Administration's trade agenda. Meanwhile, geopolitical developments, international monetary factors such as the value of the U.S. dollar relative to other currencies, and many other factors – often beyond the control of producers and their advocates in Congress – also are key determinants of U.S. farm export potential.

Provisions of the 1996 Law. A trade and food aid title likely will be viewed as an integral component of an omnibus farm bill. Title II of the 1996 law extended and amended the major U.S. foreign food aid and agricultural export programs. It reauthorized through FY2002 Titles I, II, and III of P.L. 480, the Food for Peace program, which, provide, respectively, concessional financing of U.S. agricultural exports, commodity donations for humanitarian and development activities, and bilateral development grants of food. Changes in the law reinforced both the market development and humanitarian components of the programs. The 1996 law also reauthorized the Food for Progress program, and established a Food Security Commodity Reserve, in effect expanding the Food Security Wheat Reserve to include other grains.

Agricultural Export and Food Aid Program Levels, FY1995-2000
(millions of dollars)

Programs	1995	1996	1997	1998	1999	2000
Export Enhancement Program	\$339	\$5	\$0	\$2	\$1	\$2
Dairy Export Incentive Program	140	20	121	110	145	77
Market Access Program	110	90	90	90	90	90
CCC Export Credit Guarantees	2,921	3,230	3,876	4,037	3,045	3,100
P.L. 480 Food Aid	1,286	1,207	1,054	1,154	1,796	1,076
Section 416(b)	4	84	2	27	887	644
Food for Progress	146	84	91	111	101	121
Foreign Agricultural Service ^a	159	167	191	209	206	200
Total	\$5,105	\$4,887	4,425	5,790	6,271	5,310

^a Includes funding of \$28 million annually for the Foreign Market Development Program (FMDP). Source: USDA, *Annual Budget Summaries and Outlook for U.S. Agricultural Exports*, various issues.

The 1996 law extended to FY2002, at previously authorized funding levels, export credit guarantees for agricultural sales (the so-called GSM programs). It also extended the Export Enhancement Program (EEP, an export subsidy program) and the Market Access Program (MAP, which assists agricultural trade and other groups promote U.S. farm products in overseas markets), but at reduced authorization levels. In addition, Title II called for the Secretary of Agriculture to develop a strategy for implementing federal agricultural export programs, set forth U.S. agricultural trade negotiating objectives, and prescribed new policies for monitoring other countries' commitments under the URAA.

Selected Issues. In renewing the food aid and export assistance programs, the 107th Congress will again be confronted with questions of program direction and funding. Levels of spending and volumes of product subsidized under EEP and the Dairy Export Incentive Program (DEIP), the other major U.S. export subsidy, are subject to limitations under the URAA. In practice, EEP has been used very little in recent years (DEIP has been used to the limits of the URAA). Market promotion programs like MAP, the food aid programs, and export credits (GSM) are not considered to be trade distorting under the current URAA, and therefore are not subject to spending disciplines. However, foreign trading partners argue that the United States has utilized food aid and export credits in ways that are trade distorting, and will be seeking concessions on their use in the next round of reforms. So, during the reauthorization deliberations, spending and program design will hinge not only on domestic questions such as budget impact but also trade negotiation considerations.

Some Members of Congress also have questioned the effectiveness of these programs. In particular, do export subsidy and market promotion activities actually increase overseas sales or simply displace those that would have occurred anyway? Moreover, even if sales increase, do they translate into substantially higher farm prices and incomes – or might direct farm subsidies be a more cost-effective approach? Some critics claim that these programs benefit primarily large food and export companies (who can afford to pay for such activities themselves) or foreign buyers more than U.S. producers. Defenders cite studies claiming positive outcomes from such spending, although both sides agree that more critical analysis is needed.

With regard to food aid, there are complaints that it is primarily a convenient outlet for U.S. farm surpluses, and a source of aid that tends to diminish when these surpluses decline. Such critics could be seeking some reassurance of more stability in U.S. food aid levels (even though, they agree, the United States has been the leading provider of food aid worldwide). Questions regarding food aid's effects on commercial sales and on developing countries' farm economies also arise. Research into these questions so far has produced mixed results, suggesting among other things the possible need to examine food aid impacts more closely, on a case-by-case basis.

One issue that could receive closer attention is the performance of a \$300 million, pilot Global Food for Education Initiative. The outgoing Clinton Administration used CCC funds to launch this initiative, to help establish school and pre-school food programs in 38 developing countries. Also known as "global school lunch," the effort is being operated mostly through the World Food Program and private voluntary organizations. USDA claims that the projects will provide 630,000

metric tons of food to an estimated 9 million children. Members' perception of its value could help them decide whether or not to explicitly authorize a more permanent program with stable funding.

With a variety of multilateral, regional, and bilateral trade negotiations ongoing or planned, the farm bill could become a vehicle for further congressional guidance on negotiating objectives and strategy. At the same time, some segments of agriculture could view these negotiations with trepidation, particularly where the prospect of increased imports might pose a competitive threat to their own domestic sales. Examples might include dairy, peanuts, sugar, and horticultural products. So, on the one hand, agricultural interests may be pushing for language in the farm bill promoting further market reforms, while on the other, some groups might seek protection for their own products.

(For more information, see CRS Report 98-254, *Agricultural Negotiations in the World Trade Organization*; CRS Report RL30612, *Farm Support Programs and World Trade Commitments*; CRS Report RS20840, *Farm Program Spending: What's Permitted Under the Uruguay Round Agreements*; CRS Issue Brief IB10077, *Agricultural Trade Issues in the 107th Congress*; CRS Issue Brief IB98006, *Agricultural Export and Food Aid Programs*; and CRS Report RL30753, *Agricultural Support Mechanisms in the European Union: A Comparison with the United States*.)

Conservation and Environment

A conservation title in the next farm bill is likely to both amend existing programs and add new options to protect or restore resources on agricultural lands. The existing portfolio of conservation includes mostly small programs, many of which were enacted in recent farm bills. Conservation is provided through a combination of technical assistance and cost-sharing, supported by education and research programs. Participation is voluntary. Starting in 1985, farm bills have greatly broadened the range of topics considered to be conservation. (See CRS Report RL30331, *Conservation Spending in Agriculture: Trends and Implications* for a tabulation of programs and review of spending, by broad categories, over the past 20 years.)

Selected Issues. Land retirement is the main focus of conservation programs, as measured by spending. Land retirement programs can provide significant environmental benefits while helping to raise market prices for commodities by reducing the acreage in production. The Conservation Reserve Program (CRP) is the largest conservation program, using about half the conservation budget in FY2001. It pays land owners to retire environmentally sensitive and highly erodible cropland under multi-year contracts. About 8% of all cropland, approximately 33 million acres, is currently enrolled. Other programs, such as the Wetland Reserve and two more targeted programs within the CRP (the Conservation Reserve Enhancement Program, and continuous signup), also retire land. Reauthorizing these programs and making adjustments to respond to changing needs are likely to be high priorities. Adjustments likely to be considered include: raising

the overall enrollment ceiling from 36.4 million acres; giving more emphasis to lands that provide large environmental benefits on small acreages or parts of fields, such as stream buffers; enrolling land under shorter term contracts; and allowing economic uses of enrolled lands under some circumstances.

USDA Funding for Conservation Activities, FY1990-2000
(millions of dollars)

Fiscal Year	Technical Assistance, Extension, Admin. a/	Cost Sharing b/	Public Works, including emergencies	Rental & Easement Payments c/	Data & Research	TOTAL
1990	\$653.4	\$353.2	\$196.8	\$1,406.0	\$350.7	\$2,960.0
1991	733.8	279.0	121.1	1,603.2	380.9	3,117.8
1992	813.4	262.8	187.5	1,629.6	400.1	3,299.0
1993	859.7	318.2	200.8	1,531.5	274.0	3,310.0
1994	882.7	293.9	267.6	1,823.0	399.7	3,680.9
1995	841.8	171.9	293.1	1,797.4	410.7	3,508.9
1996	868.8	243.4	99.1	1,783.1	392.9	3,387.3
1997	901.0	305.8	226.7	1,734.6	409.8	3,577.8
1998	941.4	322.3	132.5	1,823.9	423.3	3,643.4
1999	947.5	363.8	129.8	1,437.8	453.3	3,332.1
2000	939.0	265.5	111.8	1,641.0	456.7	3,413.9
<p>a/ Activities of the 4 USDA agencies engaged in supporting conservation: the Natural Resources Conservation Service (NRCS), Farm Service Agency (FSA), Forest Service, and Extension Service.</p> <p>b/ Funds passed through the NRCS to the FSA to producers to help them install conservation practices.</p> <p>c/ 90% of these payments go to farmers through the Conservation Reserve Program..</p> <p>Source: USDA, Office of Budget and Program Analysis.</p>						

Most other conservation programs to improve and sustain resource conditions on lands that continue to be farmed, often called the working landscape, have not grown rapidly. The USDA manpower to support these programs, primarily the staff of the Natural Resources Conservation Service, has shrunk in recent years. One of these programs, the Environmental Quality Incentives Program (EQIP) provides cost sharing assistance to producers to install conservation practices. Spending is concentrated in priority areas that have been identified in each state. Issues that may be addressed include: raising the program authorization level; the use of priority areas; comparing conservation accomplishments under this program with the programs it replaced in the 1996 farm bill; and distribution of funding between livestock and crop producers. Another topic that will likely receive attention is that some of the oldest small watershed projects built under the Watershed Operations

Program are reaching the end of their design life. Providing additional funding for rehabilitation and determining whether to consider, as part of the rehabilitation process, more recent environmental requirements affecting watershed projects, are issues that might be raised.

One approach to conservation on working lands that received widespread attention in the 106th Congress is embodied in the Conservation Security Act proposal, introduced by Senator Harkin (S. 3260) and Representative Minge (H.R. 5511). The proposals would provide incentives to farmers to practice conservation at three different levels under 3 to 5 year contracts; the payments would increase as higher levels of conservation are applied. Widespread involvement in the drafting of these proposals make it one likely legislative model as the farm bill progresses in the 107th Congress.

Green Payments. The Conservation Security Act proposals have been characterized as a form of “green payments.” This refers to providing financial incentives to producers based on the scope of their conservation activities rather than on the volume of commodities they produce. The green payment concept is seen by some as attractive because it could provide a new mechanism to support farm income, forge a stronger link between conservation and farm income objectives, and still comply with World Trade Organization obligations. (Current WTO rules may exempt these types of programs from discipline because they are not considered to be trade-distorting.) The Conservation Security Act proposal is one model for translating the concept of green payments into programs; other variations and alternatives are reportedly being discussed. Reaching agreement on whether this is a desirable approach and what form it should take present major challenges.

Other Options. Members also will be interested in extending or modifying many existing programs. Among these may be legislative proposals: increasing overall funding for technical assistance; changing funding levels for existing programs, or using mandatory sources to fund a different portion of the conservation effort; expanding the farmland protection program to either make more entities or more areas eligible to participate; and revising EQIP to make more producers eligible or to increase the effort to address water quality problems originating with agricultural activities. Other possible changes, such as in the overall conservation mission, whether current federal staff levels are adequate, or how to better monitor conservation accomplishments may also be under review. (For more information on conservation topics, see CRS Issue Brief IB96030, *Soil and Water Conservation Issues*.)

Food Stamps and TEFAP

At the end of FY2002, several provisions of the Food Stamp Act and the Emergency Food Assistance Act expire. They relate to the Food Stamp program, Puerto Rico’s nutrition assistance block grant program (operating in lieu of food stamps in Puerto Rico), and The Emergency Food Assistance Program (TEFAP). Renewal of these authorities – and potential changes to policies in the underlying laws – are scheduled to be included as part of the next farm bill. All but one of them,

however, were last renewed in the 1996 omnibus welfare reform law (P.L. 104-193), although food stamp and TEFAP reauthorizations have more typically been part of the farm bill cycle.¹⁰ Moreover, the last comprehensive food stamp policy changes were part of the 1996 welfare act. The major components of the 1996 welfare reform law expire with FY2002, and, as a result, food stamp amendments also may be incorporated in welfare reauthorization legislation.

The expiring provisions include:

- authorization for food stamp appropriations (“such sums as are necessary”);
- Puerto Rico’s annual nutrition assistance block grant (an annually indexed figure set at just under \$1.3 billion for FY2001);
- a set-aside of specific dollar amounts from the annual food stamp appropriation to be used for employment/training programs for food stamp recipients (e.g., \$165 million in FY2002);
- a requirement to reduce federal payments otherwise due states for food stamp administration (a 50% match) by about \$200 million a year;
- a set-aside of \$100 million a year from the annual food stamp appropriation to be used for purchasing food commodities specifically for TEFAP; and,
- authorization of appropriations for grants to states for TEFAP administration and food distribution costs (\$50 million a year).

Farm Bill or Welfare Reauthorization? Food stamp-linked reauthorization and policy changes could be included in the upcoming farm bill or the scheduled reauthorization of welfare programs covered under the 1996 welfare reform law, or both. Incorporating them in reauthorization of Temporary Assistance for Needy Families (TANF) and other welfare laws recognizes the significant role food stamps play in the family welfare system, particularly for those leaving TANF for work, as well as the overlap between food stamp and TANF rolls and administrative structures. Placing them in the farm bill reflects the historical link between food stamp reauthorization and the farm bill, committee jurisdictions, a desire to “decouple” food stamps from welfare and emphasize its role as a nutrition support program, and concerns derived from the large cuts made in food stamps to help finance welfare reform when program reauthorization was included in the 1996 reform law.

Differing Policies. States have a great deal of control over TANF assistance and work rules for families. Depending on the rule/state, TANF policies can be markedly more liberal or restrictive than food stamps. Federally established food stamp standards, on the other hand, envision a relatively uniform national “safety net” program for virtually all those in need. While states have a number of important food stamp options, they are circumscribed by federal law and regulations.

Conflicts between TANF and food stamp policies, coupled with a partially shared caseload and administrative structure, have created a strained relationship

¹⁰ For example, the 1996 farm bill included only a one-year extension of the authorization for food stamp appropriations – which were then reauthorized through FY2002 by the 1996 welfare reform law.

between the two at the state level. This is exacerbated by states' desire to apply their TANF policies to food stamps, penalties assessed them for erroneous benefit/eligibility decisions under the food stamp "quality control" (QC) system, what they see as overly complex food stamp rules, and limits on waivers from federal policies. Many state human services administrators hold that food stamps and TANF are "on a collision course" and have called for simplification of food stamp rules and consolidating TANF and food stamp work/training efforts. They also want much greater control over food stamp policies (to reinforce TANF goals), revision of the QC system, and a more open waiver policy – or, for some, conversion of food stamps to state block grants. But advocates resist vesting much more decision-making power in states, particularly where funding is almost totally federal. Additionally, they contend that TANF-based policies are not necessarily transferrable to the rest of the food stamp rolls (e.g., elderly/disabled persons, low-income working adults) and fear that needy people may be discouraged from or denied participation in food stamps. In their view, the food stamp safety net should not be tampered with.

Noncitizens. The 1996 welfare reform law ended food stamp eligibility for most noncitizens. Amendments in the 1998 Agricultural Research law (P.L. 105-185) restored eligibility to some (primarily to children and the elderly/disabled resident in the U.S. prior to welfare reform). Proposals to remove the remaining bars against legally resident noncitizens were seriously considered in the 106th Congress and are likely to be taken up again; estimates indicate this could affect over 400,000 persons at a 5-year cost of more than \$900 million.

Administrative Payments. Normal federal payments to states for food stamp administrative costs (a 50% share) are reduced by about \$200 million a year. This (expiring) reduction was enacted to correct a "windfall" states could receive in the interaction of TANF and food stamp funding rules. The Congressional Budget Office will "score" a *cost* to food stamps if the reduction is not renewed.

Access. Food stamp enrollment has fallen continuously and dramatically from its spring 1994 peak of 28 million people; November 2000 rolls show 17.1 million persons. This has been accompanied by a large drop in the rate at which those eligible participate: the participation rate went down from 71% in 1994 to 59% in 1998 (most recent estimate). Only a portion of the decline in recipients can be closely associated with better economic conditions and reformed food stamp eligibility rules. While the estimated number of eligible individuals fell by 17%, the number participating dropped by almost double (31%). Other cited reasons include administrative practices, the difficulty of applying for and keeping benefits, and a lack of understanding that losing benefits from (or being discouraged from applying for) TANF does not apply to food stamp eligibility or benefits.

Advocates and state administrators are worried that access to food stamp aid is being undermined and that those leaving TANF are not getting necessary help from food stamps. The Clinton Administration made several efforts to change food stamp administrative practices and regulations to support increased participation, culminating with controversial November 21, 2000, regulations. Food stamp amendments in the FY2001 Agriculture Department appropriations law encouraged participation with increased benefits for those with high shelter costs and eased eligibility for low-income households with cars. Advocates and state administrators

are expected to follow up with their own additional initiatives for better food stamp access and benefits.

Funding for TEFAP. In the view of state and local emergency food assistance providers, TEFAP has served as a cushion for those losing welfare or food stamp benefits under the 1996 welfare reforms. Many also contend that federal support for TEFAP has not kept pace with growing demand and is well below what would be required if there is an economic downturn. Renewal of the appropriations authorization for TEFAP administrative/distribution costs and the set-aside of food stamp money for TEFAP food purchases will bring the adequacy of current support levels into the farm bill debate. There also may be calls for increasing the \$100 million food stamp funding set-aside to buy more commodities for the program.

Farm Credit and Finance

Omnibus farm bills commonly contain a credit title that makes policy changes to USDA agricultural credit programs and addresses issues that relate to commercial lenders such as the Farm Credit System (FCS) and commercial banks. Credit is an important production input for many farmers, with all lenders holding approximately \$180 billion in outstanding farm loans. Farmers depend on long-term credit to finance their purchases of real estate, and shorter-term loans to finance production expenses such as for machinery and equipment, livestock, seed, feed and fertilizer.

USDA Farm Credit. USDA's Farm Service Agency (FSA) serves as a lender of last resort to eligible family-sized farmers whose financial condition is too weak to permit them to obtain commercial credit. FSA provides direct loans to farmers and also guarantees the timely repayment of principal and interest on certain eligible loans made by commercial lenders. (As of January 1, 2001, the FSA farm loan portfolio contained \$7 billion in direct loans outstanding, plus another \$7 billion in commercial loans outstanding that carried an FSA repayment guarantee.) FSA makes and guarantees real estate and operating loans and also makes direct emergency disaster loans. These loan programs have permanent authority under the Consolidated Farm and Rural Development Act, and unlike the farm commodity programs, do not require periodic reauthorization. However, Congress frequently uses omnibus farm bills to make changes to the terms, conditions and eligibility requirements for federal farm credit programs.

Among other provisions, the credit title (Title VI) of the omnibus 1996 farm bill tightened qualifications for FSA loans, by limiting the number of years a borrower could remain a customer of FSA before being required to "graduate" to a commercial lender. The 1996 farm bill also continued a policy begun in the 1980s of shifting FSA's financial resources from direct lending to guaranteed loans in an effort to wean farmers from federal credit programs and to reduce federal credit costs. Congress does not have to wait for the next farm bill to make policy changes to FSA farm loan programs, and commonly does make adjustments to the programs in intervening years. For example, as the farm economy began its downturn in the late 1990s, Congress loosened some qualifications for loans, including a suspension of the graduation requirement until the end of 2002.

Although commodity prices have been weak in recent years, a repeat of the severe credit crisis of the mid-1980s (with widespread borrower loan defaults and/or bankruptcies) so far has been avoided for two reasons: supplemental government payments have provided adequate income to help most farmers meet their debt servicing requirements, plus farmers now are not as highly debt leveraged as they were in the 1980s. Nonetheless, the direction of the farm economy over the next year or two could be a major determining factor on what credit issues might be considered in the 2002 farm bill. If commodity prices remain low and farm cash receipts weak, Congress might consider an extension of the postponement of borrower graduation requirements beyond 2002, as well as other forms of forbearance for FSA loan customers.

Farm Credit System Issues. Separately, issues relating to the Farm Credit System also could be an issue in the farm bill debate. The FCS is a confederation of cooperatively owned banks and associations. It has a federal charter and is classified as a “government sponsored enterprise,” but is privately owned and operated by the member-borrowers. The Farm Credit Administration, the federal regulator of the System, has sought to modify the lending authorities of the System through regulatory changes. However, commercial banks, which are the primary competitors with the System, are strongly opposed to these changes and contend that any major modifications should be addressed legislatively rather than through regulations.

Rural Development

A variety of federal laws and programs deal with rural policy. They have been crafted by numerous congressional committees, and the programs are administered by several federal agencies, including USDA (designated as the lead federal agency for coordinating rural development by the 1980 Rural Policy Act). USDA administers rural development programs that, for the most part, are authorized under omnibus farm laws. Title VII of the 1996 farm law (FAIR) is the rural development title. Its provisions, along with those of most other titles of the FAIR Act, expire in 2002.

Changes to farm commodity programs (Title I of the current law) will be closely examined in terms of their impact on rural communities. While federal farm payments and policies have directly helped many farmers and financial institutions in many rural areas, most experts agree that rural communities across the nation cannot depend on agriculture alone for their economic well-being. First, the number of farm-dependent counties has declined dramatically (down from over

For FY2001, the Congress appropriated \$2.5 billion for rural development programs operated by the USDA in support of \$8.8 billion in direct and guaranteed loan authority. This assistance funded:

- The Rural Community Advancement Program (\$962.5 million);
- Rural Housing programs (\$1.45 billion in loan and grant assistance, supporting \$5.1 billion in loan authority; \$1.1 billion in direct loans;
- \$674 million in rental assistance, and \$13.8 million for empowerment zones);
- Rural Business Cooperative Program (\$33.5 million); and
- Rural Utilities Service (\$107.7 million).

2000 in 1950 to 556 in 1990). Moreover, changes in farm structure (larger farms, greater concentration in manufacturing) and global competition have lessened the role of production agriculture in farm-dependent rural economies. At the same time, economic, environmental, and demographic changes in rural farm communities have lessened their role as facilitators of agricultural production.

The rural development title of past farm bills generally has supported the infrastructure of rural areas, with traditional support for housing, electricity, community development, and so on. More recently, policymakers have pushed for programs that support innovative and alternative industry development, and mechanisms to finance it. Pressure for such alternative approaches is expected to continue as policymakers recognize the changing structure of agriculture and the diversity of rural communities, with some growing and prospering, and others falling further behind as their primary industries (including agriculture) either decline or adapt to a global marketplace and economy that often means fewer employment opportunities and lost population.

Proposals are being circulated that promote technologies to help farmers with planting decisions and local investments in industries that will add value to their products, among others. Research is increasingly focused on improvements in agricultural waste management and environmental protections. Traditional strategies, notably value-added agriculture – e.g., regional food processing plants, cooperatives, organic farming – are being promoted by many in the farm sector. While holding promise for agriculture and surrounding communities, there are limits on how many yogurt plants, small dairy processors, or value-added food processors can be supported by these local economies, especially with increasingly global competition in these sectors.

Thus, rural entrepreneurship of the past (e.g. in the value-added enterprises such as dairy processing facilities, and processing of timber and mining resources) may give way to future forms of rural entrepreneurship that build around new, or previously ignored resources. Among the options are investment innovation in agriculture from the perspective of environmental entrepreneurship or environmental capital, for example, public-private development of carbon emission markets and sustainable land management innovations tied to national (clean water) and international agreements (carbon emissions), and environmentally sensitive land use for non-agricultural purposes (e.g. recreation). What roles, if any, the federal government might play in encouraging these or other types of activities are among the issues that Congress may address in considering a new rural development title.

Agricultural Research, Extension, and Education

The 1996 farm bill included a title authorizing USDA's agricultural research, extension, and education programs and reforming public agricultural research policy. Specifically, Title VIII of the 1996 law established: (1) a new advisory board to advise the Secretary on research- and extension-related matters, replacing two boards that had been in existence since 1977; (2) a competitive grants program to improve

agricultural education programs at Hispanic-serving institutions; and (3) a task force charged with developing a 10-year strategic plan for research facility construction, modernization, consolidation and closure. In addition, the rural development title of the 1996 act gave the authority for a competitive grants program (the Fund for Rural America) to support rural development projects and rural-focus research projects. The Fund marked a significant change in funding authority for agricultural research in that federal money for the Fund (\$100 million annually for 3 years, of which roughly one-third was for research grants) was to be transferred directly to USDA from the U.S. Treasury.

1998 Research Legislation. In 1998 Congress passed separate legislation superseding Title VIII of the 1996 farm bill, making several significant reforms and reauthorizing USDA's research, extension, and education programs through 2002. The Agricultural Research, Extension, and Education Reform Act of 1998 (P.L. 105-185) extended the new provisions contained in the 1996 farm bill (including the Fund for Rural America) and adopted additional policy changes to: (1) require greater accountability for program relevance and merit on the part of institutions receiving federal funds; (2) increase the funding authority for multi-state research projects; (3) phase in a matching funds requirement for the 1890 (historically black) institutions; and, (4) authorize several new research programs. Of the latter, the most significant is a 5-year, \$600 million Initiative for Future Agriculture and Food Systems, a competitive grants program intended to promote cutting-edge research in the areas of genomics, biotechnology, food safety, new uses for agricultural products, natural resource management, and farm profitability. Congress authorized funding for the program – \$120 million annually – to come directly from savings in mandatory spending stemming from reforms made in the food stamp program in 1997.

Selected Issues. Despite the innovative funding mechanisms authorized for the Fund for Rural America and the Initiative for Future Agriculture and Food Systems, neither program has been consistently funded since its inception. Provisions in annual agricultural appropriations acts have blocked USDA from implementing the Fund for Rural America for 4 of the 6 years that the program has been authorized; funding for the Initiative was blocked in 1999, but permitted in 2000 and 2001 after intense negotiations between the Department and lawmakers.

Garnering additional resources to support public agricultural research, extension, and education programs is likely to be the primary issue in this policy area in the upcoming farm bill debate. Past research titles have focused on increasing funding authority for competitive grants programs, but the record shows that appropriations levels have not risen commensurately. The Fund for Rural America and the Initiative for Future Agriculture and Food Systems represented efforts to find additional resources from non-discretionary sources, but these also have proven problematic. Issues related to international agricultural research, food safety research, biosafety, and resource conservation also are likely to be included in the farm bill research title debate.

Appendix A. Commodity Credit Corporation Net Expenditures, By Commodity/Program, FY1996-2002

Commodity/Program	FY96	FY97	FY98	FY99	FY00	FY01Est	FY02Est
	<i>(Million \$)</i>						
<i>Corn</i>	2,021	2,587	2,873	5,402	10,203	4,169	2,945
<i>Grain Sorghum</i>	261	284	296	502	983	329	282
<i>Barley</i>	114	109	168	224	399	149	112
<i>Oats</i>	8	8	17	41	61	59	27
<i>Corn and Oat Products</i>	0	0	0	0	5	0	1
Feed Grains	2,404	2,988	3,354	6,169	11,651	4,706	3,367
Wheat and Products	1,491	1,332	2,187	3,435	5,365	2,128	1,120
Rice	499	459	491	911	1,894	923	856
Upland Cotton	685	561	1,132	1,882	4,015	969	713
AMTA Crops Support	5,079	5,340	7,164	12,397	22,925	8,726	6,056
Tobacco	(496)	(156)	376	113	634	148	(97)
Dairy	(98)	67	291	480	684	1,209	157
Soybeans	(65)	5	139	1,289	2,864	3,001	2,859
Peanuts	100	6	(11)	21	35	62	0
Sugar	(63)	(34)	(30)	(51)	465	(36)	(28)
Honey	(14)	(2)	0	2	7	26	(10)
Wool & Mohair	55	0	0	10	(2)	35	(13)
All Commodities Support	4,498	5,226	7,929	14,261	27,612	13,171	8,924
Export Programs	-422	125	212	165	216	588	593
Disaster/Tree/Livestock Assistance	95	130	3	2,241	1,452	2,576	0
Conservation Reserve Program	2	1,671	1,693	1,462	1,511	1,693	1,788
Other Conservation Programs	7	105	197	292	263	367	281
All Conservation Programs	9	1,776	1,890	1,754	1,774	2,060	2,069
Operating Expense	6	6	5	4	60	5	5
Interest Expenditure	140	-111	76	210	736	366	592
Other Expenses	320	104	28	588	415	1,675	884
Total CCC	4,646	7,256	10,143	19,223	32,265	20,441	13,067

Data are from the USDA, Farm Service Agency, January 16, 2001.

Appendix B. Titles & Subtitles of the 1996 Farm Bill (Federal Agriculture Improvement and Reform Act of 1996, P.L. 104-127)

- I. **Agricultural Market Transition Act**
 - A. Short Title, Purpose, and Definitions
 - B. Production Flexibility Contracts
 - C. Nonrecourse Marketing Assistance Loans and Loan Deficiency Payments
 - D. Other Commodities
 - E. Administration
 - F. Permanent Price Support Authority
 - G. Commission on 21st Century Production Agriculture
 - H. Miscellaneous Commodity Provisions
- II. **Agricultural Trade**
 - A. Amendments to Agricultural Trade Development and Assistance Act of 1954 and Related Statutes
 - B. Amendments to Agricultural Trade Act of 1978
 - C. Miscellaneous Agricultural Trade Provisions
- III. **Conservation**
 - A. Definitions
 - B. Highly Erodible Land Conservation
 - C. Wetland Conservation
 - D. Environmental Conservation Acreage Reserve Program
 - E. Conservation Funding and Administration
 - F. National Natural Resources Conservation Foundation
 - G. Forestry
 - H. Miscellaneous conservation Provisions
- IV. **Nutrition Assistance**
- V. **Agricultural Promotion**
 - A. Commodity Promotion and Evaluation
 - B. Issuance of Orders for Promotion, Research, and Information Activities Regarding Agricultural Commodities
 - C. Canola and Rapeseed
 - D. Kiwifruit
 - E. Popcorn
 - F. Miscellaneous
- VI. **Credit**
 - A. Farm Ownership Loans
 - B. Operating Loans
 - C. Emergency Loans
 - D. Administrative Provisions
 - E. General Provisions
- VII. **Rural Development**
 - A. Amendments to the Food, Agriculture, Conservation, and trade Act of 1990
 - B. Amendments to the Consolidated Farm and Rural Development Act
 - C. Amendments to the Rural Electrification Act of 1936
 - D. Miscellaneous Rural Development Provisions
- VIII. **Research, Extension, and Education**
 - A. Modification and Extension of Activities Under 1977 Act
 - B. Modification and Extension of Activities Under 1990 Act
 - C. Repeal of Certain Activities and Authorities
 - D. Miscellaneous Research Provisions
 - E. Research Authority After Fiscal Year 1997
- IX. **Miscellaneous**
 - A. Commercial Transportation of Equine for Slaughter
 - B. General Provisions

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